

STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
300 Capitol Mall, 17th floor
Sacramento, California 95814

INITIAL STATEMENT OF REASONS

February 15, 2002

RH-02019024

PROPOSED AMENDMENTS TO THE PRELICENSING EDUCATION
CURRICULUM REGULATIONS PURSUANT TO INSURANCE CODE
SECTIONS 1749, 1749.31, AND 1749.6

INTRODUCTION

Pursuant to California Insurance Code Sections 1749, 1749.31, and 1749.6, California Insurance Commissioner Harry Low ("Commissioner") proposes amendments to California Code of Regulations, Title 10, Chapter 5, Subchapter 1, Article 6.5, entitled "Prelicensing and Continuing Education". The original regulations, effective May 17, 1993, were promulgated to provide specific prelicensing education curriculum requirements to potential licensees and education providers for compliance with the Insurance Code's prelicensing education statutes, Sections 1749 et seq. These regulations were amended effective September of 1996.

Effective January 1, 2002, a new class of license has been created by statute, specifically AB 393: the personal lines broker-agent license. An Emergency Regulation, ER-42, was promulgated effective January 1, 2002, and was published prior to January 1, 2002, to outline the prelicensing educational curriculum required for applicants for the new license. The regulation proposed herein would put the Emergency Regulation through the proper rulemaking process, resulting in a permanent regulation and minor amendments to existing regulations. These changes need to be made as follows:

- 1) To set forth a detailed outline of the required prelicensing educational curriculum for personal lines broker-agents.
- 2) To add language to include personal lines broker-agents in the existing regulatory structure for prelicensing education.
- 3) To add language reflecting changes in subsection numbers and effective dates caused by the creation of the personal lines broker-agent license, to prevent inconsistencies with existing statutes.

The Legislature mandates in Section 8 of AB 393 that the following amendments to the regulations are necessary to ensure that AB393 is adequately implemented.

SPECIFIC PURPOSE AND REASONABLE NECESSITY OF REGULATION:

The specific purpose of each adoption, amendment, or repeal and the rationale for the Commissioner's determination that each adoption, amendment or repeal is reasonably necessary to carry out the purpose for which it is proposed is set forth below.

SECTION 2186.1. Definitions.

Section 2186.1(f)(1) Amend

Existing subsection 2186.1(f)(1) refers to a "student" as an individual who is taking courses as prerequisite to acquiring a "life agent or fire and casualty broker-agent license".

This subsection has been amended to add the phrase "or personal lines broker-agent license; or," at the end of the existing sentence. This amendment was made to reflect the existence of a new class of licensees effective January 1, 2002.

SECTION 2187.1. Prelicensing Education for Life Agents.

Section 2187.1(a) Amend

Existing subsection 2187.1(a) refers to California Insurance Code section 1749(b) as the section pertaining to life agents.

This subsection has been amended to clarify it and make it consistent with the California Insurance Code effective January 1, 2002, when the section pertaining to life agents is actually California Insurance Code section 1749(c).

SECTION 2187.2. Prelicensing Education on Ethics and the Insurance Code.

Section 2187.2(a) Amend

Existing subsection 2187.2(a) refers to California Insurance Code section 1749(c) as the section pertaining to fire and casualty broker-agents.

This subsection has been amended to clarify it and make it consistent with the California Insurance Code effective January 1,

2002, when the section pertaining to fire and casualty broker-agents is actually California Insurance Code section 1749(d).

SECTION 2187.3. Prelicensing Education for Personal Lines Broker-Agents.

Section 2187.3 **Adopt**

This newly adopted subsection specifies the prelicensing education curriculum required of applicants to obtain a personal lines broker-agent license. It is necessary for implementation of the personal lines broker-agent license created by AB 393.

The new section's language and much of its content is consistent with section 2187, the Prelicensing Education for Fire and Casualty Broker-Agents.

IDENTIFICATION OF STUDIES

There are no specific studies relied upon in the adoption of this subchapter.

SPECIFIC TECHNOLOGIES OR EQUIPMENT

Adoption of these regulations would not mandate the use of specific technologies or equipment.

ALTERNATIVES

The Commissioner has determined that no reasonable alternative exists to carry out the purpose for which the regulations are proposed or would be as effective or less burdensome to affected private persons than the proposed regulations.

ECONOMIC IMPACT ON BUSINESS

Based on the content of the Form 399 originally submitted in conjunction with the Emergency Regulation, ER-42, the Commissioner has initially determined that the proposed regulations will not have a significant adverse economic impact on business. **Economic costs will only be incurred by education providers who choose to offer prelicensing education curriculum for personal lines broker-agent licensees. There will be no involuntary costs imposed upon small businesses.** The estimated costs to education providers who elect to develop and offer prelicensing coursework for the personal lines broker-agent license will be two thousand dollars (\$2,000.00). Maintenance of the course and updates are estimated to cost eleven dollars (\$11.00) per year. **It should be noted that the education**

providers who elect to develop personal lines prelicensing curriculum will be collecting revenue for offering the courses, and therefore any initial fiscal impact will be absorbed by a positive revenue flow to the small businesses involved. Based upon an estimated count of education providers, the total cost of implementation of this curriculum to small businesses as a whole is one hundred sixty thousand dollars (\$160,000.00): eight hundred businesses incurring the initial \$2,000 cost. The Commissioner invites interested parties to comment on whether the proposed regulations will have a significant adverse economic impact on business.